setting your marketing budget

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Knowing where to start

Establishing a healthy marketing budget is a critical first step to the overall success of your marketing efforts. No company wants to overspend on its marketing, but not allocating enough money may put your brand in peril and eat away at the overall health of your business.

When assessing how much money your marketing department needs to succeed, it's helpful to remember the budget should ultimately answer this question: **How much money does my brand need to be successful in getting the attention and desired action of my target audience?**

To help you answer this question, we're going to cover the following topics:

- **Key factors to consider**
- **Common approaches:**
  - **Resource-based budgeting**
  - **Goal-focused budgeting**
- **Allocating your budget**

let’s start at the beginning

Key factors to consider

Before you start crunching any numbers, consider these guidelines to help inform your approach to developing your marketing budget.

The perfect budget for your brand should be unique. There is no one perfect formula that works well for every business when it comes to putting your marketing dollars to their best use. The key is finding the best budget that fits both your brand and your target audience.

Some strategies and tactics that seem expensive today may be helpful in meeting long-term business goals. The most effective budgets take into consideration both short- and long-term business goals. There are marketing efforts critical to the overall success of your brand that take more than a quarter or a year from which to reap the full benefits.

Focus content creation on thought leadership, rather than product collateral. Delivering new business insights, telling inspiring stories and providing forward-thinking perspectives that stimulate customer engagement are key to growing your brand.

Invest in assets with high use potential. As brands turn their focus to content creation, you’ll maximize your budget by focusing on the touchpoints and channels your target audience use most.

Know how your customers find you. When it comes to knowing how to allocate your budget, it’s important to know how your customers find you, as well as their journey along the way. Having this information this allows you to optimize your budget towards your most effective channels.

Don’t forget to adjust your media spending year to year. A rinse-and-repeat approach is easy, but it’s not always smart. It’s important to adapt to pricing changes and be cognizant of inflation. If you don’t adjust your media spending appropriately, you risk losing volume and share of voice.

Don’t forget to allocate money towards expenses that can be easily overlooked. Your marketing budget needs to account for more than just developing content and buying media. Other expenses to include are:

- Market research
- Employee training
- Attending functions and trade shows
- Hosting events
- Hiring consultants

Resource-Based Budgeting

This approach starts with an amount of money available — usually a percent of revenue or sales — and allocates a certain amount to marketing. Across industries this approach is the most common, because it's easy.

How it works

Young Brands: 12-20% of sales or revenue is good for brand 1-5 years old. The newer your brand is the more aggressive you need to be with your spending in order to build awareness and equity.

Established Brands: 6-12% of sales or revenue is a good range for brands who have been in the market long enough to establish equity and awareness among their audience.

Additional factors to consider

Thinking through these question can help you determine where to land within your recommended range:

- How firmly established is your brand?
- How much are your competitors likely to spend?
- How much can you afford?

Caveats with this approach

It assumes that what your brand has done in the past will work in the future. Ultimately this approach either rewards success — if what worked in the past is still effective today — or compounds failure.

It accepts a reverse causality between marketing and sales. If you base your marketing budget on a percent of sales or revenue, your marketing becomes an effect of sales rather than a driver.

It doesn't account for share of voice (SOV) or share of market (SOM). Because sales are inherently tied to share of market, it can be difficult to increase SOV or SOM if a budget is derived from a portion of sales.

Marketing spend by sector

	B2B Product	B2B Services	B2C Product	B2C Services
Percentage change in marketing budgets in next 12 months	5.4%	6.4%	7.1%	5.8%
Marketing spend as a percentage of firm budget	10.4%	8.7%	14.9%	11.4%
Marketing spend as a percentage of firm revenue	8.1%	5.8%	15.2%	11.0%

Source: The CMO Survey

Goal-Focused Budgeting

This approach starts with laying out goals for the business to meet and then creating a course of action. This approach makes the most sense when it comes to growing a business, but it also requires the most work.

How it works

Part 1: Identify the specific goals for your business that your brand can support.

Part 2: Assess the effectiveness of your past communication efforts and how they should affect your marketing going forward.

Putting this approach into practice

Revenue goal:

$$\frac{\text{Revenue goal}}{\text{\$ value of new client}} = \text{\# of new clients needed}$$

New client goal:

\# of new clients x cost per acquisition = Budget

Factors to consider

Profit margin: Businesses with products or services with a high profit margin should have bigger marketing budgets than those with lower profit margins.

Size of market: The larger your market, the more money you'll need to promote your brand.

Ease of reach: The harder it is to reach your target audience, the more money you'll need to market to them.

Newness: Just as in the resource-based approach, the newer your brand, the more money you should put into promoting it to offset lack of awareness.

Aggressiveness of competition: Have an idea of how much your competitors are spending and budget accordingly.

Allocating your budget

Once you've established your budget, the next step is to decide how it should be spent. Here are a few recommended guidelines.

Phase your spending. Rather than spending your money evenly throughout the year, your brand may get a higher ROI if it phases spending with increased communication pushes during strategic times of the year.

Set aside money aside for the unexpected. Include a slush fund of 10% in your budget that leaves room to capitalize on unexpected trends.

Embrace a testing approach. Regularly evaluate what channels work best and adjust your budget accordingly. Don't overlook the competitive advantage in being willing to change.

Know who you want to reach and what media they consume. We mentioned this earlier, and it bears repeating. When developing your budget, we recommend starting with the end consumer in mind rather than the brand itself.

The Coca-Cola Approach

Here's a broad look at how Coke spends its marketing dollars:

- **70% =** Tried and true low-risk channels and activities
- **20% =** Recent but proven marketing innovations
- **10% =** Entirely new ideas, channels and content

contact us

We’d love to talk more about defining your goals and setting your marketing budget.

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sources

Journal of Advertising

The CMO Survey

Entrepreneur

USA Today

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Warc

Inc.